

EXHIBIT 1

INTRODUCTION

Respondent Physicians for the Group Practice of Medicine (“Committee”) is a general purpose recipient committee sponsored by The Permanente Medical Group, Inc. and the Southern California Permanente Medical Group. Respondent Pauline Fox (“Fox”) was at all times relevant to this matter the treasurer of Respondent Committee.

This case arose from an audit of Respondent Committee by the Franchise Tax Board (“FTB”) for the period January 1, 2001 through December 31, 2002. The FTB found that Respondents failed to maintain the detailed records and accounts necessary to prepare a campaign statement, as required by the Political Reform Act (the “Act”).¹

For the purposes of this Stipulation, Respondents’ violation of the Act is stated as follows:

COUNT 1: Respondents Physicians for the Group Practice of Medicine and Pauline Fox failed to maintain the detailed accounts, records, bills, and receipts necessary to prepare the semi-annual campaign statement for the reporting period of February 17, 2002 through June 30, 2002, in violation of section 84104.

SUMMARY OF THE LAW

An express purpose of the Act, as set forth in section 81002, subdivision (a), is to ensure that receipts and expenditures in election campaigns are fully and truthfully disclosed to the public, so that voters may be better informed, and improper practices may be inhibited. To that end, the Act sets forth a comprehensive campaign reporting system designed to accomplish these purposes of disclosure.

Duty of Committees to File Campaign Statements

Section 82013, subdivision (a) defines a “committee” as including any person or combination of persons who directly or indirectly receives contributions totaling \$1,000 or more in a calendar year. This type of committee is commonly referred to as a “recipient” committee.

Section 84200, subdivision (a) requires a recipient committee to file two semi-annual campaign statements each year. The first semi-annual campaign statement covers the reporting period January 1 to June 30, and must be filed by July 31. The second semi-annual campaign statement covers the reporting period July 1 to December 31, and must be filed by January 31 of

¹ The Political Reform Act is contained in Government Code sections 81000 through 91014. All statutory references are to the Government Code, unless otherwise indicated. The regulations of the Fair Political Practices Commission are contained in sections 18109 through 18997 of title 2 of the California Code of Regulations. All regulatory references are to title 2, division 6 of the California Code of Regulations, unless otherwise indicated.

the following year. The reporting period covered by a semi-annual campaign statement may vary, however, as the period covered by a campaign statement begins with the day after the closing date for the last statement filed. (Section 82046, subdivision (b).) In an election year, for instance, pre-election reports are likely to affect the period covered by a semi-annual campaign statement because the period covered by the semi-annual statement will begin the day after the closing date for the pre-election campaign statement.

Duty to Maintain and Retain Campaign Records

To ensure accurate campaign reporting, section 84104 imposes a mandatory duty on each candidate, treasurer, and elected officer to maintain detailed accounts, records, bills and receipts that are necessary to prepare campaign statements and to comply with the campaign reporting provisions of the Act. This requirement, as interpreted by regulation 18401, includes a duty to maintain detailed information and original source documentation for all contributions and expenditures.

Regulation 18401, subdivision (b)(2), requires the committee treasurer to retain the above described campaign records for four years following the date that the campaign statement to which they relate is filed.

Treasurer Liability

Under section 84100 and regulation 18427, subdivision (a), it is the duty of a committee's treasurer to ensure compliance with all requirements of the Act concerning the receipt and expenditure of funds, and the reporting of such funds. A committee's treasurer may be held jointly and severally liable, along with the committee, for any reporting violations committed by the committee. (Sections 83116.5 and 91006.)

SUMMARY OF THE FACTS

This case arose from an audit of Respondent Committee by the FTB for the period January 1, 2001 through December 31, 2002. During the period covered by the audit, Respondent Committee received contributions totaling \$109,414 and made expenditures totaling \$182,008.

COUNT 1

Failure to Maintain Detailed Records and Accounts for the Semi-annual Campaign Statement for the Reporting Period February 17, 2002 through June 30, 2002.

Respondents were required by section 84104 and regulation 18401, subdivision (a) to maintain detailed information and original source documentation for each expenditure of \$25 or more. The FTB audit revealed that Respondents failed to maintain this information and source documentation, including invoices and receipts, for \$51,648 in expenditures made during the reporting period February 17, 2002 through June 30, 2002. It appears that the violation occurred in large part when the former treasurer, an experienced professional hired by Respondents, failed to maintain the records supporting the expenditures.

By failing to maintain detailed accounts, records, bills, and receipts necessary for the preparation of the semi-annual campaign statement covering the reporting period February 17, 2002 through June 30, 2002, Respondents violated section 84104.

CONCLUSION

This matter involves one count of violating section 84104, as interpreted in regulation 18401, subdivision (a), carrying a maximum administrative penalty of Five Thousand Dollars (\$5,000).

The record-keeping requirements of the Act serve the important purpose of enabling independent verification of the accuracy of campaign statements. Penalties imposed for record-keeping violations have been particularly fact dependant and thus have been in the low to high range. In determining the appropriate penalty for a particular record-keeping violation, the Enforcement Division has placed particular emphasis on whether the violation was the result of deliberate, negligent, or inadvertent conduct.

During the audit period, Respondents made expenditures totaling \$182,008, but failed to maintain required records for \$51,648 of those expenditures. Thus, the FTB was unable to adequately verify the information reported for approximately 28% of Respondent Committee's expenditures. In mitigation, Respondents' violation was not deliberate. Respondents have indicated that unbeknownst to them, the former committee treasurer simply did not perform her duties as required by the Act.

The facts of this case, as well as the aforementioned factors, justify imposition of the agreed upon administrative penalty of One Thousand Two Hundred Dollars (\$1,200).